

25 September 2019

Outgoing No. 77

BY DHL AND EMAIL

KPMG Audit LLC
Attn.: Mr. Ashley Clarke
Partner, Head of Audit
KPMG in Kazakhstan and Central Asia
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A25D6T5, Kazakhstan
Email: ARClarke@kpmg.kz; company@kpmg.kz

Dear Sirs,

Re: Audit of financial statements of Kazpolmunay LLP ("KPM"), Tolkynneftegaz LLP ("TNG"), and Tristan Oil Ltd ("Tristan Oil") for the years ended 31 December 2007, 2008 and 2009

1. We refer to our letter of 6 September 2019 (our "September Request Letter"), by which we expressed our concerns in respect of your firm's conduct in not only privately liaising with the various legal advisors and public bodies of the Republic of Kazakhstan (against whom we, your client, are currently seeking to enforce a recognised and binding arbitral award), but in proceeding to take certain action about the relevant audit reports mentioned in your letter of 21 August 2019 (the "Audit Reports") in reliance upon those private liaisons without proper independent investigation and assessment.
2. We further refer to your letter of 20 September 2019, by which your firm purported to respond to our September Request Letter (your "September Response Letter").
3. For convenience, we adopt the defined terms used in our September Request Letter.

Our urgent queries

4. In our September Request Letter, we asked you respond to our urgent queries that arose from your firm's conduct within two weeks, i.e. by 20 September 2019.
5. We were therefore disappointed to receive your two-page September Response Letter on 20 September 2019 in which you failed to provide a substantive response to any of our urgent queries. In particular, your firm:
 - 5.1 failed to disclose any correspondence between your firm and Kazakhstan and/or HSF and/or NRF in respect of this matter;
 - 5.2 failed to confirm that you were referred to by HSF and have read the

evidence referred to the judgment of Mr. Justice Jacobs dated 2 July 2019 and para. 17(g) thereof, such that we can only assume that you were not referred to and did not read the same prior to our reference to it;

- 5.3 failed to provide any explanation as to why you did not correct the MoJ Press Release pursuant your duty to “*not be associated with*” communications that are “*materially false or misleading*”¹ when the MoJ repeatedly and wrongfully represented that the audit reports in issue had been “*withdrawn*”; and
- 5.4 failed to provide any details of further approaches that have been made to your firm in respect of this matter between 1 April 2019 to date, including details of approaches from Kazakhstan’s legal advisors and/or from state bodies of Kazakhstan.
6. We therefore reiterate our urgent queries in respect of your firm’s conduct set out at paragraph 52 of our September Request Letter and ask that the same be provided to us by no later than 2 October 2019.

Your lack of substantive response

7. In your September Response Letter, you say that:
- “As a threshold matter, we disagree with the various statements, conclusions, and characterizations contained in your letter, and reserve the right to respond at an appropriate time.”*
8. It is unclear what “*threshold*” you rely upon to avoid responding properly to the content of our September Request Letter, or indeed why any additional “*threshold*” should apply in the face of the credible and compelling evidence we have presented you with in respect of your ethical and professional misconduct.
9. Your firm was and continues to be required to consider and review its compliance with ethical and professional duties, which includes your obligation under the IESBA Code to:
- “evaluate any threats to compliance with the fundamental principles where the professional accountant knows, or could reasonably be expected to know, of circumstances of relationships that may compromise compliance with fundamental principles...”*²
10. The IESBA Code goes on to recognise that:
- “A professional accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles*

¹ IESBA Code, 110.2.

² IESBA Code, 100.6.

provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.”³

11. Your conduct could not be more different from that which would be reasonably expected from an auditor or required by international best practice and/or by the IESBA Code. Your September Response Letter suggests that you have not evaluated any of the “*threats*” to your professional and ethical duties identified in our September Request Letter. Further, you have not acted “*promptly*” to correct the violations of the IESBA Code set out therein or applied necessary safeguards: for example, the MoJ Press Release referred to above remains public and uncorrected by yourselves, contrary to your duties of integrity and objectivity.

Your mischaracterisation of events

12. In your September Response Letter, you assert that:

“As made clear in our letter of 5 August 2019, KPMG received sworn evidence that the audit reports referenced in that letter (the Audit Reports) may have failed to disclose material related-party transactions, in violation of IAS 24 and in conflict with the multiple representation letters signed inter alia by Mr. Stati. Pursuant to KPMG’s obligations under international auditing standards, KPMG sought confirmation from Mr. Stati as to whether material information was withheld from KPMG during the preparation of the Audit Reports.”

13. In this regard, we note that you now say that, by your First August 2019 Letter, KPMG sought “*confirmation*” from Mr. Stati as to whether material information was “*withheld*” from KPMG during the preparation of the Audit Reports. This is not an accurate reflection of the representations made by your firm within the First August 2019 Letter:

- 13.1 First, at no point in your First August 2019 Letter did you merely ask for “*confirmation*” in respect of any fact or issue. What your firm in fact requested was Mr. Stati’s

“assessment with reference to the documents listed above [in the First August Letter], whether Perkwood was a related party of the Companies within the meanings specified by IAS 24 and therefore whether the requirements of IAS 24 should have been followed...” [Emphasis added]

In any event, as explained in our September Request Letter and below, the deadline by which your firm required Mr. Stati to respond failed to provide him a reasonable opportunity to do so.

- 13.2 Second, your September Response Letter shows that your firm merely sought “*confirmation*” that material documents had in fact been “*held back*” or “*withheld*” by Mr. Stati. We note that you did not communicate this intention to Mr. Stati in your August correspondence, and we can only assume that your language in this regard substantiates our concern that your firm’s investigation and assessment in respect of this matter was largely predetermined and/or unduly influenced by external and irrelevant

³ IESBA Code, 100.8.

factors.

Your premature observations

14. We see no merit in engaging with an audit process which cannot be assured to be independent, transparent and objective, and which cannot guarantee full access to the complete documentary record (including but not limited to your firm's communications with the Government of Kazakhstan and its legal advisors).
15. To this end, we will not participate further in a substantive discussion with your firm unless and until our concerns as to your firm's misconduct, as outlined above and in our September Request Letter, have been fully and properly addressed. Neither do we see merit in disclosing further evidence and/or explanation(s) to your firm without assurance that the same will be considered in a manner which is consistent with your professional and ethical obligations and will not be improperly disclosed to third parties.
16. Further and in any event, your observation that the questions raised in your First August 2019 Letter remain "*conspicuously unaddressed*" is particularly egregious given that Mr. Stati was only given 5 working days in which to respond. We note that your First August 2019 Letter (ostensibly dated 5 August 2019) was only sent by DHL, resulting in a 2-day delay in Mr. Stati receiving the same on 7 August 2019. Your failure to send this important correspondence instantaneously by email is inexplicable, particularly given that you were fully aware of Ascom's email details from the correspondence with us back in February-March 2016.
17. As such, it is apparent that your firm has chosen, presumably in response to pressure exerted upon it by the Government of Kazakhstan, to uncritically adopt positions that the Kazakh Government has orchestrated to resist enforcement of the arbitration award in favour of your firm's client.

Next steps

18. We look forward to hearing from you in relation to the above by 2 October 2019 and remind you of your professional obligations and duties owed to your clients.
19. In the meantime, we reserve all our rights in respect of the above.

Yours Sincerely,

Grigore Pisica /signature/

Head of Legal Department

I, the undersigned, Svetlana Varanita, licensed in foreign languages (holder of Diploma in English language and literature Series AL no. 0030328), translator at Ascom-Grup S.A., certify the authenticity of the translation with the text of the document, which was signed by me.

25 September 2019

Signature: 